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PAGURIAN 1979 ANNUAL REPORT

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Board of Directors

Christopher Ondaatje,
President, The Pagurian Corporation Limited, Toronto

Donald C. Webster,
President, Helix Investments Limited, Toronto

Richard A. N. Bonnycastle,
Chairman, Harlequin Enterprises Limited, Don Mills

Thatcher Townsend, Jr.,
President, Townsend Investment Company,
Winston Salem, North Carolina, U.S.A.

Michael F. B. Nesbitt,
President, Crabb & Company Limited, Winnipeg

James Peter Zachary,
Executive, Japeza Limited, Toronto

Peter John Dale,
Executive, Commonwealth Development Finance Company
Limited, London, England

Corporate Information

Corporate Offices/
335 Bay Street, Toronto, Ontario
Telephone number: (416) 863-9781

Auditors/
Smith, Nixon & Co., Toronto

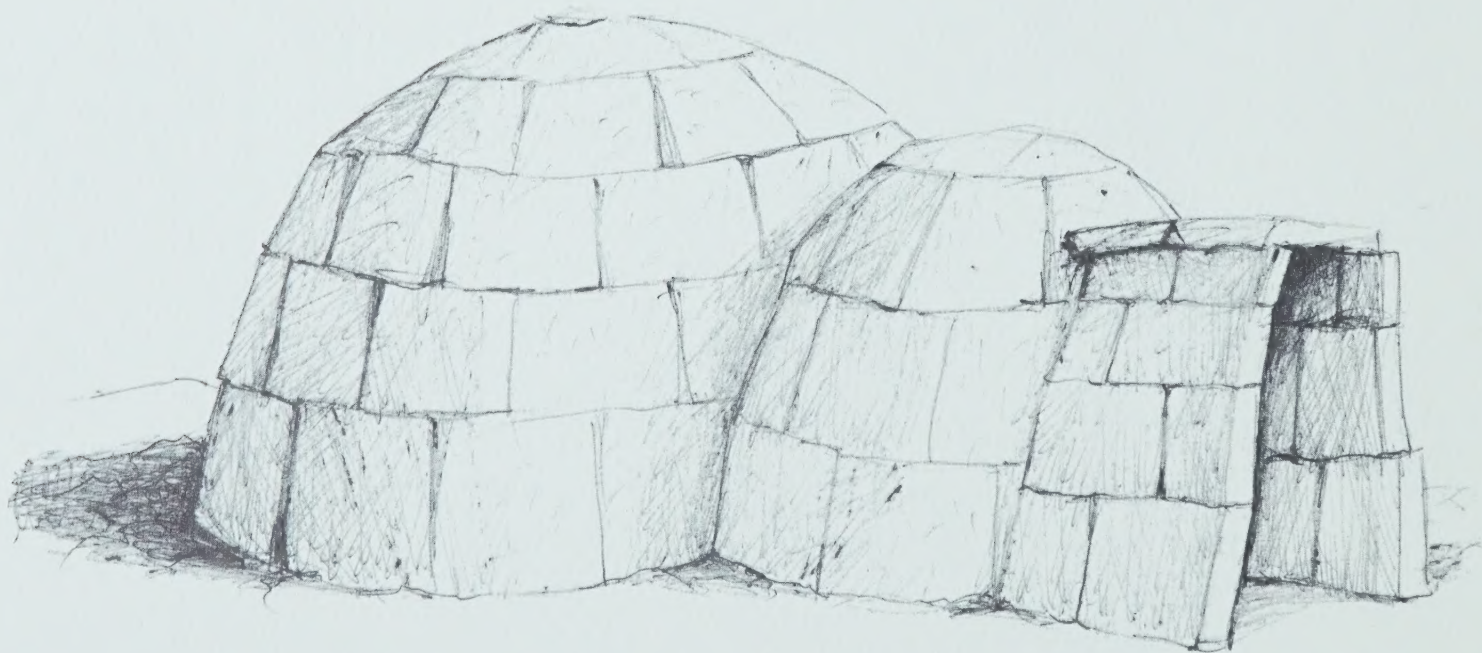
Exchange Listings/
The Toronto Stock Exchange
The Vancouver Stock Exchange

Registrar and Transfer Agent/
Canada Permanent Trust Company,
20 Eglinton Avenue West, Toronto,
Ontario M4R 2E2

Annual Meeting/
11 a.m., May 29th, 1980

Sir John A. Room
The Albany Club
91 King Street East
Toronto, Ontario

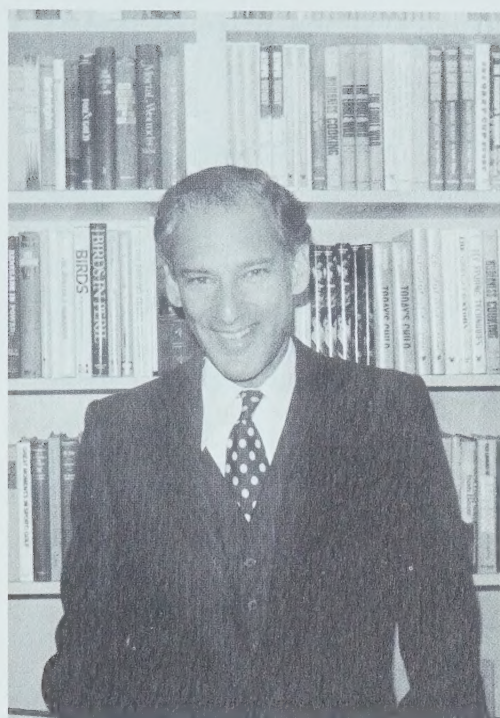
869-7211



About the Cover:

Screen lithograph by the late William Kurelek "Hockey" from *Canadian Sporting Scenes*, \$1,500.

A limited number of these prints, signed by the artist, are available at a 35% discount to Pagurian Corporation shareholders.



President's Report to Shareholders

It is gratifying, once again, to be able to report a year of record revenues and earnings for The Pagurian Corporation Limited. Net earnings for the year ended December 31, 1979, amounted to \$1,944,000 or \$0.55 per share compared to \$0.34 in the prior year. In 1979 there was an average of 3,563,105 shares outstanding, compared to 1,286,040 shares in 1978. Gross revenues in the latest fiscal year rose 147% to \$2,890,000, from \$1,170,000 in the previous year.

Last year was a notable one for The Pagurian Corporation Limited, not only in that it was a year of record revenues and earnings, but it was also a year in which your Company underwent a major corporate restructuring. Early in 1979, The Pagurian Corporation Limited made a share exchange offer for all the common shares of Interpublishing (Canada) Limited which it did not own. This offer was successful and all the assets and operations of both companies are now integrated. In addition to simplifying the companies' capital structure, this transaction, which was on the basis of 14 Class 'A' shares of Pagurian for every 10 common shares of Interpublishing, increased significantly the number of shares outstanding, a factor which facilitated having Pagurian's shares listed on the Toronto Stock Exchange in 1979.

The Pagurian Corporation Limited is an investment holding company incorporated under the laws of the Province of Ontario, whose chief asset now is a publishing company, Pagurian Press Limited, founded in 1968. Initially, Pagurian Press Limited devoted its creative efforts totally to the lucrative general book publishing field. However, these efforts have now diversified considerably and the company is actively engaged in the fine arts field. It has a considerable inventory of several thousand original paintings and limited edition prints and purchases original art for both resale and for use in publishing.

Your Company is now pursuing two avenues of growth. One is to further develop the publishing and fine art operations; the other is to search for high growth opportunities in the communications and related fields to deploy Pagurian's growing financial resources. To this end the Company has acquired a 28.8% interest in Black Photo Corporation Limited. Black Photo, with annual sales of approximately \$30 million, is Canada's leading photographic service and supply company. During its latest five fiscal years ended March 31, 1979, Black Photo's sales and net earnings have grown at average annual rates of 15% and 25% respectively. This trend continued in the first nine months of fiscal 1980 when Black's net earnings rose 24% to \$2.7 million. This investment is already a significant factor for Pagurian, as Black Photo accounted for 37.2% of Pagurian consolidated earnings in 1979. It is the intention of The Pagurian Corporation to invest further in this and similar high growth areas in Canada and the United States of America.

While economic conditions are becoming increasingly adverse throughout North America, management is confident that Pagurian will continue to achieve superior growth in 1980 and I would again like to thank both the staff of the Company and the shareholders for their very loyal support.

On behalf of the Board

Christopher Ondaatje
President

THE PAGURIAN CORPORATION LIMITED

Consolidated Balance Sheet

AS AT DECEMBER 31, 1979

Assets

Current:

	1979	1978
Cash	\$ 24,420	\$ 17,476
Marketable investments — at quoted market value (Note 5)		
(cost: 1979 — \$5,862,738; 1978 — \$2,076,415)	7,269,558	2,553,450
Receivables	156,367	210,363
Inventories	101,247	84,297
Prepaid expenses and deposits	<u>64,285</u>	<u>56,971</u>
	7,615,877	2,922,557

Investment in Black Photo Corporation Limited (Notes 3 and 5)

— at cost	—	2,756,033
— at equity	4,928,479	—

Fixed Assets (Note 4)

20,010	17,311
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Goodwill — at cost less accumulated amortization of \$72,909; 1978 — \$9,755

<u>1,921,769</u>	<u>726,623</u>
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<u>\$14,486,135</u>	<u>\$6,422,524</u>
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The accompanying notes form an integral part of the consolidated financial statements.

Liabilities and Shareholders' Equity

Current:

	1979	1978
Bank loan (Note 5)	\$ 850,000	\$ 205,000
Accounts payable and other liabilities	561,929	738,017
Income taxes payable	158,807	17,370
Deferred royalties payable	93,468	129,621
10 ¹ / ₄ % demand loan payable to an affiliated company	—	224,000
Deferred income taxes	<u>314,081</u>	<u>51,281</u>

1,978,285 1,365,289

Minority Interest

— 2,433,537

1,978,285 3,798,826

Shareholders' Equity:

Capital Stock (Note 6)	8,320,258	2,759,350
Retained Earnings	3,129,972	1,186,273
Net Unrealized Gain On Marketable Investments	<u>1,057,620</u>	<u>206,335</u>

12,507,850 4,151,958

Less:

Unpaid subscriptions	<u>—</u>	<u>1,528,260</u>
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12,507,850 2,623,698

\$14,486,135 \$6,422,524

On behalf of the Board:

Christopher Ondaatje
Director

J. Peter Zachary
Director



THE PAGURIAN CORPORATION LIMITED

Consolidated Statement of Earnings

FOR THE YEAR ENDED DECEMBER 31, 1979

	1979	1978
Income:		
Publishing and fine art	\$ 399,286	\$ 389,545
Net gain on investments	1,592,809	325,811
Dividends and interest	174,399	250,444
Equity in net earnings —		
Black Photo Corporation Limited	723,632	—
Interpublishing (Canada) Limited	<u>—</u>	<u>204,697</u>
	<u>2,890,126</u>	<u>1,170,497</u>
Expenses		
Costs and expenses exclusive of undernoted item	733,544	478,662
Depreciation and amortization	<u>69,543</u>	<u>12,687</u>
	<u>803,087</u>	<u>491,349</u>
Earnings before income taxes and minority interest	<u>2,087,039</u>	<u>679,148</u>
Income Taxes		
Current	105,740	22,269
Deferred	<u>37,600</u>	<u>(45,276)</u>
	<u>143,340</u>	<u>(23,007)</u>
	1,943,699	702,155
Minority Interest	<u>—</u>	<u>269,033</u>
Net earnings for the year	<u>\$1,943,699</u>	<u>\$ 433,122</u>
Earnings per class A special and class B special share	<u>\$ 0.55</u>	<u>\$ 0.34</u>

Consolidated Statement of Retained Earnings

FOR THE YEAR ENDED DECEMBER 31, 1979

	1979	1978
Balance — Beginning of year	\$1,186,273	\$ 753,318
Add:		
Net earnings for the year	<u>1,943,699</u>	<u>433,122</u>
	3,129,972	1,186,440
Less:		
Refundable dividend taxes paid	<u>—</u>	<u>167</u>
Balance — end of year	<u>\$3,129,972</u>	<u>\$1,186,273</u>

THE PAGURIAN CORPORATION LIMITED

Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED DECEMBER 31, 1979

Funds were provided from:	1979	1978
Operations:		
Net earnings for the year	\$1,943,699	\$ 433,122
Items not representing a current flow of funds:		
Equity earnings, net of dividends received	(616,132)	(204,697)
Depreciation and amortization	69,543	12,687
Minority interest	—	269,034
Loss on sale of fixed assets	<u>—</u>	<u>17,801</u>
	1,397,110	527,947
Business acquisition (Note 2)	\$4,187,508	
Less: Issue of Class A special shares	<u>4,187,508</u>	<u>—</u>
Business acquisition — funds acquired	—	1,242,928
Issue of Capital stock	1,373,400	1,528,260
Less: Unpaid subscriptions	—	(1,528,260)
Receipt from capital stock subscriptions	1,528,260	—
Net unrealized gain on marketable investments	851,285	134,348
Proceeds from sale of fixed assets	<u>—</u>	<u>399,421</u>
	<u>5,150,055</u>	<u>2,304,644</u>
Funds were applied to:		
Investment in Black Photo Corporation Limited	1,060,643	634,838
Purchase of fixed assets	9,088	—
Redemption of preference shares	—	840,600
Refundable dividend taxes	<u>—</u>	<u>167</u>
	1,069,731	1,475,605
Increase in working capital for the year	4,080,324	829,039
Working capital — beginning of year	<u>1,557,268</u>	<u>728,229</u>
Working capital — end of year	<u>\$5,637,592</u>	<u>\$1,557,268</u>

Consolidated Statement of Net Unrealized Gain on Marketable Investments

FOR THE YEAR ENDED DECEMBER 31, 1979

Balance — beginning of year	\$ 206,335	\$ —
Unrealized gain during the year	1,076,485	477,035
Less: Deferred income taxes applicable thereto	<u>225,200</u>	<u>124,000</u>
	851,285	353,035
Less: Minority interest's share	<u>—</u>	<u>146,700</u>
Balance — end of year	<u>\$1,057,620</u>	<u>\$ 206,335</u>

The accompanying notes form an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 1979

1. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiary companies.

(b) Translation of Foreign Currencies

Foreign currencies are translated to Canadian dollars as follows:

- (i) market value of investments, receivables and payables at year-end exchange rates;
- (ii) purchases and sales of investments, income and expenses at the rates of exchange prevailing on the respective dates of such transactions; and
- (iii) the resulting gains or losses are included in net income.

(c) Inventories

Inventories are valued at the lower of cost and net realizable value. Costs of publication and printing are written off as incurred.

(d) Marketable Investments

The Company carries its marketable investments at their quoted market values. Net unrealized gains are recognized in the accompanying consolidated statement of net unrealized gain on marketable investments.

(e) Fixed Assets

Fixed assets are depreciated on the diminishing balance method at the following annual rates:

Automobiles	— 30%
Office furnishings	— 20%

(f) Goodwill

The excess of the purchase price of businesses over the Company's interest in the fair value of the net assets acquired is being amortized on a straight-line basis over 40 years.

(g) Provision for Book Returns

The Company follows the practice of making a provision for book returns determined by its experience with returns in prior years.

(h) Income Taxes

Provision has been made for deferred income taxes that would be payable if the unrealized gains (Note 1(d)) had been realized on December 31st. In addition, deferred income tax debits result from claiming deductions for accounting purposes in excess of the amounts allowed for tax purposes.



2. Acquisition of Interpublishing (Canada) Limited

During the year the Company acquired the remaining 49.63% of the outstanding shares of Interpublishing (Canada) Limited (an investment and publishing company) in exchange for 1,379,105 Class A special shares, which were valued at \$4,187,508 by the directors of the Company. This transaction has been accounted for by the purchase method and the results of operations have been included in the accompanying consolidated financial statements since January 1, 1979.

The cost of this acquisition has been allocated as follows:

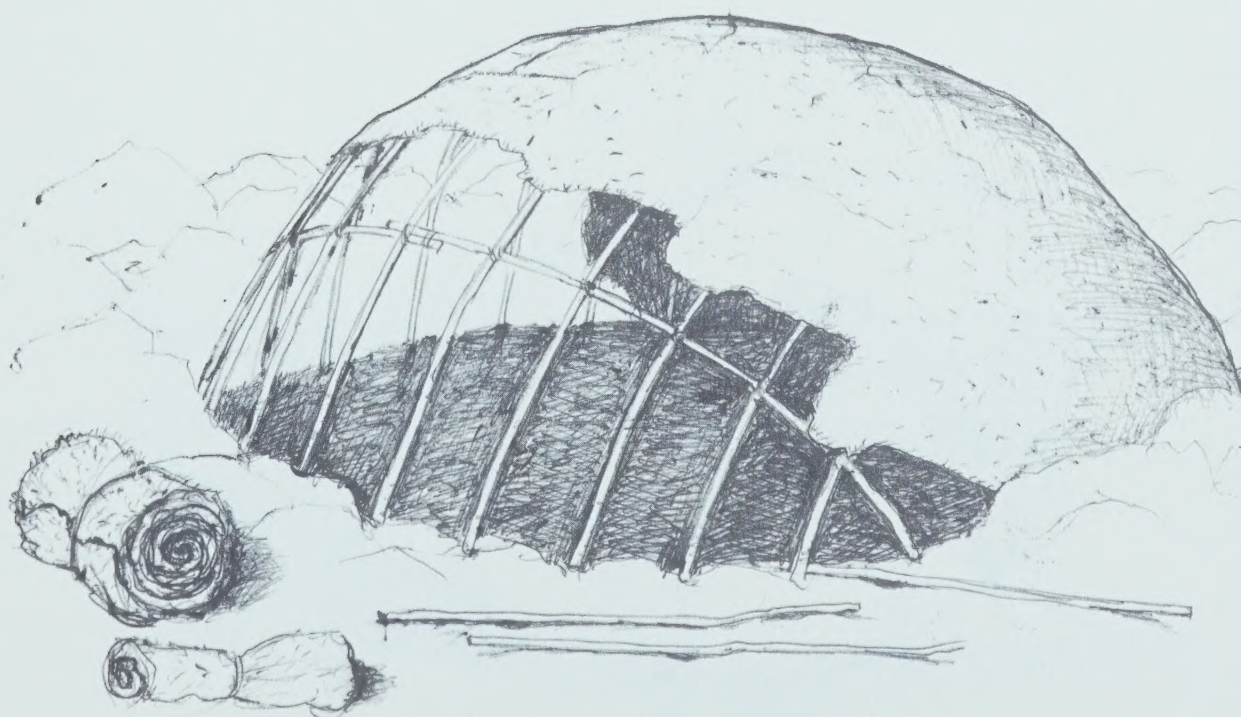
Reduction in minority interest in Interpublishing (Canada) Limited	\$2,433,537
Adjustments of carrying values — Investment in Black Photo Corporation Limited	495,671
Goodwill	1,258,300
Cost	<u>\$4,187,508</u>

3. Investment in Black Photo Corporation Limited

During 1979 a subsidiary acquired an additional 65,000 shares of Black Photo Corporation Limited ("Black's") thereby increasing its ownership interest to 28.76% (1978 — 22.73%). This investment has been carried at equity since January 1, 1979. The excess of the purchase price of this investment over the Company's interest in the fair value of the net assets acquired is \$729,300. This amount is being amortized on a straight-line basis over 40 years. Since Black's year end is March 31, nine months of the equity earnings included in the results of operations are based on unaudited interim financial statements.

4. Fixed Assets

	1979		1978	
	Cost	Accumulated Depreciation	Net	Net
Automobiles	\$ 9,588	\$ 3,653	\$ 5,935	\$ 2,589
Office furnishings	26,242	12,167	14,075	14,722
	<u>\$35,830</u>	<u>\$15,820</u>	<u>\$20,010</u>	<u>\$17,311</u>



5. Bank Loan

Both the marketable investments and the investment in Black Photo Corporation Limited are pledged as security for the bank loan.

6. Capital Stock

(a) Authorized Shares

4,732	5% Class A non-cumulative, non-voting redeemable preference shares, par value \$10 each
200,000	5% Class B non-cumulative, voting, redeemable preference shares, par value 1/10¢ each
4,895,500	Class A special, non-voting shares, without par value
104,500	Class B special, voting shares, convertible on a one for one basis into Class A special shares, without par value
100	Common shares, without par value

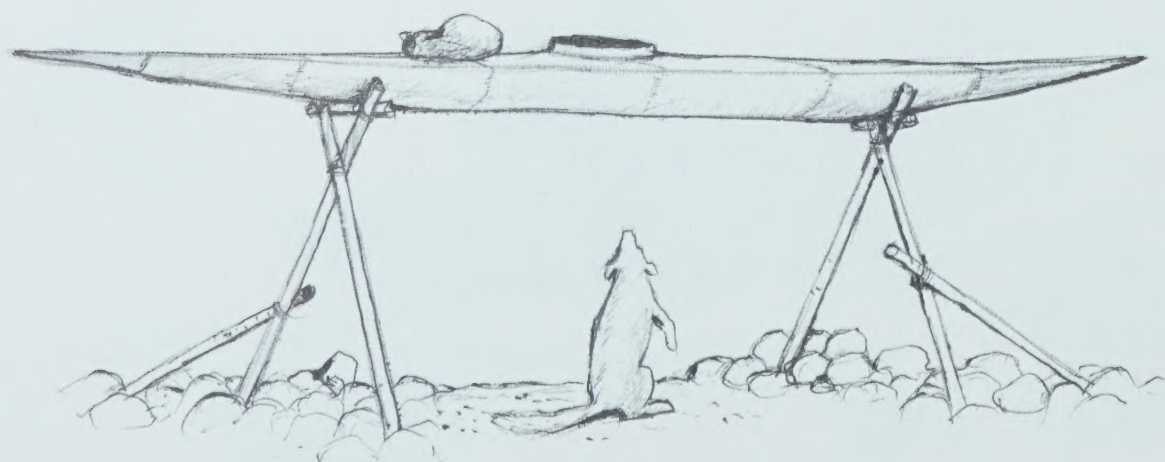
(b) The issued capital of the Company changed during the year as follows:

- (i) 1,379,105 Class A special shares were issued for a value of \$4,187,508 (Note 2);
- (ii) 420,000 Class A special shares were issued for cash of \$1,260,000; and
- (iii) 60,000 Class A special shares were issued to an officer of the Company for cash of \$113,400, pursuant to an option agreement.

(c) Issued — Shares		Amount	
1979	1978	1979	1978
200,000	200,000		
			5% Class B preference shares, par value 1/10¢ each
		\$ 200	\$ 200
3,691,105	1,832,000		Class A special shares, without par value
		8,300,058	2,739,150
104,500	104,500		Class B special shares, without par value
		20,000	20,000
		<u>\$8,320,258</u>	<u>\$2,759,350</u>

7. Remuneration of Directors and Officers

The aggregate remuneration of directors and senior officers of the Company and its subsidiaries, and paid to corporations controlled by directors of the Company for the year ended December 31, 1979, was \$218,670 (1978 — \$164,600).



Auditors' Report

To the Shareholders of
The Pagurian Corporation Limited

We have examined the consolidated balance sheet of The Pagurian Corporation Limited as at December 31, 1979, and the consolidated statements of earnings, retained earnings, changes in financial position and net unrealized gain on marketable investments for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Equity in net earnings of an associated company and the related investment carried on an equity basis include \$626,171 which represents

the company's portion of the net earnings of an investee company for the nine-month period from April 1, 1979, to December 31, 1979, which has not been audited.

In our opinion, subject to the effect of adjustments, if any, which might have been required had audited financial information of the investee company been available, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

March 12, 1980
Toronto, Canada

Smith, Nixon & Co.
Chartered Accountants



